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Latin American Trends

STAFF NOTES

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LATIN AMERICAN TRENDS

This publication is prepared for regional specialists in the Washington community by the Western Hemisphere Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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NOTE: Beginning next week, the Latin American Trends will be published twice a week. Issues will be dated Monday and Wednesday, and will be distributed the following day.

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Argentina: Military Government Scores Initial Economic Gains

In the two months since taking power, the Argentine military government has been able to slow runaway inflation, reduce the budget deficit, and stave off default on the foreign debt. These short-term successes enhance prospects for dealing with the more deepseated problems of reviving production and exports and restoring Argentina's international solvency. Progress so far will probably encourage foreign leaders to furnish badly needed credits. It should also reassure labor, whose support is essential to the regime's ultimate success.

Recent Financial Improvements

After falling slightly in April, the monthly inflation rate dipped to 13 percent in May compared with the 38 percent March figure. The government trimmed budget expenditures 6 percent in April while doubling revenue collections, thereby cutting the deficit by nearly 30 percent. As a result, the growth of the money supply in April was little more than half the February rate.

Progress against inflation has permitted the government to relax its wage freeze to the point where real wages can be maintained. A 15-percent wage hike effective June 1 reinstated the May real wage level; real wages, which had reached an economically unsustainable level at the beginning of 1976, dropped 45 percent from January through April.

The government nevertheless realizes it cannot stabilize prices immediately. It is indexing private bank deposits and loans to reduce speculation and encourage savings and investment. Taxes also are indexed to encourage prompt payment.

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Production Still Low

The government had hoped that earlier measures--freeing prices while freezing wages--would lead to higher profits, thereby stimulating output and investment. With real wages dropping, however, sales have declined and producers have cut output. Auto makers in particular have reduced production and furloughed workers because of excessive stocks. If real wages can be kept at current levels, demand should stabilize, laying the groundwork for some expansion in output later in the year. The fundamental solution to Argentina's economic problem rests on the ability to channel an increasing portion of production quickly into export markets.

Foreign Payments Position Slightly Better

We expect exports to increase 10 percent this year. Exchange rate adjustments will help boost sales of meat and manufactures as foreign markets rebound from recession. Buenos Aires is likely to use the increased earnings to expand imports of raw materials needed to support higher industrial production. The trade account thus will be approximately in balance as in 1975. Continuing high interest payments will keep the current account deficit at last year's $700 million level.

The government still needs to raise $400-$500 million to close its $1.6 billion financial gap--the current account deficit plus scheduled debt repayments. The Peron government had received $600 million in commitments, and the junta has obtained debt relief from private banks amounting to some $250 million this year. In addition, since the coup, foreign lenders have provided $250-$300 million in new loans. To raise the remaining funds, Buenos Aires intends to appeal to the IMF as well as to private banks and will request an IMF standby loan if necessary.

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Argentina: International Financial Gap

Million US $

	1973	1974	1975[1]	1976[2]
Exports (f.o.b.)	3,266	4,005	3,000	3,400
Imports (f.o.b.)	1,983	3,159	3,000	3,400
Trade balance	*1,283*	*846*	....	....
Net services and transfers	-568	-600	-700	-700
Current account balance	*715*	*246*	*-700*	*-700*
Debt amortization	-573	-600	-800	-900
Financial gap	**142**	**-354**	**-1,500**	**-1,600**
Medium- and long-term capital inflows	594	723	N.A.	N.A.
Net short-term capital inflows	185	-420	N.A.	N.A.
Total capital inflows	**779**	**303**	**789**	**N.A.**
Change in reserves	**921**	**-51**	**-711**	....
Other financial items:				
External debt yearend	2,864	2,567	2,556	3,056
Foreign reserves yearend	1,462	1,411	700	700

1. Provisional.
2. Projected.

Efforts to attract foreign investment do not appear to have had much success so far. The military government has(a) promised to change the restrictive foreign investment law which has in effect halted the inflow of foreign funds, (b) suspended nationalization actions against several foreign--including US--firms, and (c) specifically solicited foreign investment in oil exploration and exploitation. Foreign investors are taking a wait-and-see attitude before committing funds.

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Argentina: Church Leaders on Military Junta

Leading churchmen have voiced general, if not effusive, support for the military junta. Seventy of Argentina's bishops have issued a pastoral letter that clearly indicates a desire to cooperate with the government. The document raises such problem areas as economic hardships and abuses of human rights, but only with great caution, carefully avoiding outward criticism of the junta's performance.

The statement was the product of last month's episcopal conference, headed by the archbishop of Cordoba, Cardinal Raul Francisco Primatesta. The Cardinal reportedly drafted the final, bland statement as a compromise, after some participants sought to make the paper a purely spiritual tract and others tried to deal at length with political and social topics.

The pastoral letter skirts any particular policy line but refers to areas of concern to the "nation" and the "people." The statement is characterized by what the US embassy calls an "on the one hand...., but on the other" approach. Typical is the statement that individuals and families must not be "absorbed" by the state, but neither must the state remain a "mere spectator to chaos and immorality."

The bishops temporized at some length on the basic question of how much loss of personal freedom and economic deprivation can be justified during the effort to restore political and fiscal order. Common good and human rights are permanent and inalienable, they said, and no emergency authorizes ignoring these rights. But the manner of treating these questions varies with place and time. In the present "disastrous situation" in Argentina, the letter notes, it is not reasonable to expect full enjoyment of common good or of rights to the same degree as in time of abundance and peace.

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The statement clearly leaves room for the bishops to back away gracefully from the junta should human rights or other policies prove troublesome for the churchmen. In the meantime, however, the clerics seek to identify, however cautiously, with the new government before its success or failure is clear.

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